



## Agenda Item 4

March 14, 2011

### TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. **SUBJECT:** California Employers' Retiree Benefit Trust (CERBT)  
Investment Annual Update and Strategic Asset  
Allocation - Recommendation
- II. **PROGRAM:** Affiliate Investment Programs Division
- III. **RECOMMENDATION:** Staff recommends the Investment Committee adopt the asset allocation for three policy portfolios of conservative, moderate and aggressive as presented in the Strategic Asset Allocation CERBT presentation (Attachment 1, page 7). This is contingent upon acceptance of the staff recommendation to offer three CERBT strategies to the Benefits and Program Administration in the March 15, 2011 agenda item 7b.

Wilshire's opinion letter is included as Attachment 2.

### IV. ANALYSIS:

#### Background

Since 2007 CalPERS has offered the Annuitants' Health Care Coverage Fund (the "Fund") for public employers to prefund their retiree health and other post-employment benefit (OPEB) obligations. The plan is known as the California Employers' Retiree Benefit Trust (CERBT). Since inception, the Fund has outperformed its policy index by 0.82% as of January 31, 2011 as shown in Table 1.

**Table 1: Fund Performance**

Periods Ended 1/31/11 (gross)	Mkt Value \$(000)	Qtr	1 Year	3 Year	Annualized ITD	Inception
CERBT Fund	1,621,196	5.25	18.61	1.68	0.46	6/1/2007
CERBT Policy Index		4.94	18.49	1.69	-0.36	
<b>Excess Return</b>		<b>0.31</b>	<b>0.12</b>	<b>-0.01</b>	<b>0.82</b>	

Source: State Street Bank

Note: The CERBT Policy Index is a composite benchmark composed of the underlying asset class benchmarks weighted by asset class policy targets.

As shown in Table 2, the Fund has experienced considerable employer and asset growth in its relatively short history.

**Table 2: Employer and Asset Growth**

Fiscal Year End	Participating Employers	CERBT Fund Value
2007	3	\$5,971,144
2008	81	\$498,796,092
2009	197	\$826,284,331
2010	279	\$1,580,655,275

### **Asset Allocation Discussion**

At the March 15, 2011 Benefits and Programs Administration Committee meeting, staff will recommend adding two additional asset allocation fund choices to enhance CalPERS investment offerings. By increasing the number of investment choices from one to three (conservative, moderate, aggressive), CalPERS will enhance public employers' ability to choose a portfolio that more closely matches their particular risk/return profile as informed by their actuarial valuation. Providing a choice of risk/return alternatives enhances CalPERS competitiveness relative to other OPEB offerings in the marketplace.

To develop these three CERBT asset allocation fund choices, staff used the capital market assumptions from the Board's November 8 and 9, 2010 asset liability management (ALM) workshop. Attachment 1 presents staff's analysis, assumptions and the three recommended portfolios shown on page 7. Staff will present this analysis at the March Investment Committee meeting.

### **Recordkeeping**

To address the administrative complexity of managing three fund offerings and reduce operational risk, staff included an automated recordkeeping solution service requirement in the master custody Request for Proposal recently awarded to State Street Bank. Staff has begun working on a transition plan to move this recordkeeping from CalPERS Fiscal Services Division to State Street's external provider, Northeast Retirement Services (NRS) with a target implementation in July 2011. The new recordkeeping service will also enhance customer service and disclosure by allowing employers online access to their CERBT accounts. CalPERS would not offer the additional fund choices until the automated recordkeeping is in place.

## **V. STRATEGIC PLAN:**

These initiatives address two CalPERS Strategic Plan Goals.

- Goal VIII to manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions; and
- Goal IX to achieve long-term, sustainable, risk adjusted returns.

## **VI. RESULTS/COSTS:**

Adopting the recommendations in this agenda item will provide public employers greater choice with an enhanced product offering for prefunding their OPEB liabilities. This program is self sustaining so the minimal costs of offering additional investment funds and recordkeeping services will be paid by participating employers and are expected to be minimal.

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